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“Privatization and Corporate Control”

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PRIVATIZATION AND CORPORATE CONTROL

by

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Introduction

The first discussions on reforming Eastern European economies, out of which the "consensus view" (Summers 1992) emerged, concentrated on the sequencing of reform measures. The resulting "blueprint" rested on the triad of price liberalization, corporatization (including the imposition of hard budget constraints), and privatization. This approach was based on the belief that dismantling the old coordination device of the central plan, and replacing it with an accurate structure of relative prices would provide the sufficient condition for the establishment of market coordination.

However, these policies largely neglected the historical differences in the characteristics of East European economies, their particular endowments and institutional arrangements. Consequently, path dependence continues to influence the specific shape of reform in each country. In particular, the legacy of central planning has produced surprising developments in Russia, where this legacy is most tenacious.

Among the most difficult problems associated with Russian reforms is the imposition of hard budget constraints on the industrial sector. The problem is connected to the peculiar structure of the Russian capital stock and the emergence of unexpected alliances between managers across firms and between managers and workers in individual firms. Following price reform, these alliances managed to skirt attempts at establishing a hard budget constraint by relying on a web of inter-industry credit, thus maintaining employment levels and continuing a minimum level of production. The resulting pressure to redeem arrears is the leading cause for Russian inflation. At the heart of this issue

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seems to be the fact that activity levels in manufacturing cannot simply be scaled down to improve productivity; and it is likely that the existing, vertically integrated industrial sector requires continued, massive subsidization to avoid collapse.¹

These same alliances have shaped the design and progress of the Russian mass-privatization scheme. The influence of the industrial lobby produced a "compromise" program in which the role of open auctions has been marginalized, and managers and workers may acquire substantial ownership over their firms nearly for free. The following paper addresses the ensuing debate over such "insider privatization" by exploring the theoretical conditions under which "insider" and "outsider" privatization differ.

The first section outlines some structural characteristics of a centrally planned economy, and connects these observation to the Russian program for mass-privatization. The next section briefly discusses the emergence of joined ownership under competitive conditions when economies of scale are present, and addresses the ensuing problem of ownership control and its relation to the distribution and the level of wealth. The last section applies the results to the problem of insider versus outsider privatization in Russia.

The Legacy of Central Planning and Mass-Privatization

The structure of the secondary sector left by GOSPLAN differs from that of competitive economies in many respects. A stylized description summarizes three points. First, in order to simplify the input-output structure, and thus keep central planning manageable, production was concentrated in relatively fewer

¹ See Rühl (1993) for a more detailed discussion of the nature of the Russian capital stock and its consequences for the transfer of property rights. The present paper, in contrast, does not address question related to the development of the new private sector.
facilities per output unit. At each stage of the production process, vertically integrated industries are composed of bilateral monopolies and monopsonies. As a result, disruptions of the productive process at single points cascade throughout the system.\textsuperscript{2} Exploitation of these potential bottlenecks, the "hold up" of a chain of production processes resulting from the failure of one plant or firm, represents an important source of bargaining power held by large industrial enterprises.

Second, both firms and individual factories, several of which might comprise a single firm, are larger than would be justified under competitive conditions; their size cannot be explained by the benefits of increasing returns to scale. In many cases, whole cities or regions have been developed to accommodate individual enterprises. Such conditions add the threat of massive unemployment to the considerable bargaining power of large firms.

Yet the organization of these "oversized" production facilities of the secondary sector is no less complex than that of their Western counterparts. Increasing returns, also present in socialist industry up to a point, depend on the division of labor and on a sophisticated organization of the production process. Consequently, their restructuring and "unbundeling" proves equally complex. Scaling down activity levels creates bottlenecks internal to the firm (or the plant), and thus scaling down employment may not increase productivity unless "unemployment on the job" (Kornai 1993) can indeed be observed.

Third, the quintessential socialist firm is an institution with a very peculiar joint-product. Substantial elements of the social infrastructure and the tertiary sector have traditionally been attached to industrial (and agricultural) centers of production. Day care centers, housing, hospitals, shops etc. which otherwise might be abandoned, are typically maintained and operated

\textsuperscript{2} The problem is aggravated by a politically motivated spatial distribution of plants and firms across the FSU (and former CMEA members) which has nothing to do with efficiency.

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by enterprises, increasing the social cost of restructuring.\textsuperscript{3}

These features are indispensable in explaining the perpetuation of unstable macroeconomic conditions in Russia and the emergence of powerful industrial alliances. They clarify the puzzle of persistently declining output which appears not to effect employment. Under conditions which provide no alternative employment possibilities or social safety net, the continuation of production, in order to avoid disruptions arising from the collapse of single enterprises, might be understood almost as an act of self-defense (Leijonhufvud 1993).

One other observation is in order. A primary goal of socialist ideology is the establishment of an egalitarian distribution of wealth. This involved the "socialization" of the means of production and adherence to a relatively egalitarian distribution of income. However much we dispute the claim that under socialism the property of the economy had been owned by all citizens, today's reality beholds a relatively poor population, made even poorer by the elimination of the monetary overhang and raging inflation.

This stylized description of the legacy of central planning will be a useful tool by which to understand the theoretical observations which follow. For the moment, however, it serves to explain why hard budget constraint policies failed to weed out non-viable enterprises and to identify a salable class of firms simply by "increasing competition" (Lipton and Sachs 1990, p.[]), as a prerequisite for privatization. The "hold up" properties of the existing industrial structure, together with industry's apparent success in maintaining government support for state owned

\textsuperscript{3} The Russian economy exemplifies other characteristics of central planning which effect the course of reform. For example, the vintage structure of the capital stock, production technologies, and final products, will be found uncompetitive at living wages as soon as the economy is exposed to competition, further impeding privatization. For the purpose of this paper, emphasis is placed on those characteristics relevant to the tension between "insider-outsider" privatization.

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enterprises, left few incentives for private investors to take over existing firms. Furthermore, little domestic wealth was available for investment. As a result, the most feasible mechanism for removing enterprises from state hands was a program of mass privatization which offers existing enterprises almost for free. The alliances which grew out of the need to sustain production and employment also left their mark on the mass privatization program, and continue to influence the progress of privatization.

Bending under the pressure of opposition both from conservative elements in the government and from the industrial nomenklatura, Yeltsin's administration conceived a privatization program which consciously enlists the support of those "inside" enterprises. Enterprises are first "transformed" into joint stock companies. Then, their privatization combines discounted sales of shares to management and workers with open voucher auctions and sales of blocks of shares to significant investors. However, the precise constellation of this combination is chosen by the enterprise, from among three possible variants.

Under Variants I and III, the management and workers can acquire up to 40 per cent of the shares of their enterprise. These shares are either considerably discounted (up to 30 per cent) or given free of charge, with various restrictions on their voting rights. Variant II, on the other hand, makes up to 51 per cent of voting shares available to insiders, but at a price 1.7 times their nominal value. In all three variants, shares not sold to insiders are publicly auctioned in exchange for vouchers or sold in blocks.

Boycko, Shleifer and Vishny (1993) address the asset values resulting from voucher auctions so far, wondering what could explain the disappointing asset evaluation. Enterprises are undervalued by all conceivable standards: conversion of auction share prices into US Dollars leads to stipulating the total value of Russian industry somewhere between 5 and 10 Billion Dollars, comparable to a single Fortune 500 company. Computing the Dollar market value of manufacturing companies per employee yields a ratio between Russia and the US of 1 to 1000! There is evidently more at work than "expropriation of shareholders by stakeholders" (p. 25), e.g. expected negligible dividend payments.

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to outside investors.

As of October 1993, 78 per cent of all enterprises undergoing privatization have chosen Variant II, thus enabling their management and employees to acquire controlling stakes.\(^5\) In spite of the apparent extra cost involved in choosing this option, such a development is hardly surprising since the nominal price of shares is not adjusted for inflation. In this case too, the transfer is nearly free.

Thus, in an important sense, insiders won a significant victory. Though insiders had been recognized generally to oppose restructuring, and though the threat of their subsidy seeking behavior was also recognized, Privatization Minister Chubais has repeatedly insisted that only through such a compromise could privatization have been pursued at all. In principle, it was hoped that secondary markets eventually would both match appropriate owners and assets, and concentrated ownership among parties which have a real interest in restructuring. However, it is not at all clear that this will in fact be the case. Consequently, the focus of theoretical interest has shifted, from the question of how to carry out the transfer to the problem which group to target.

Joint Ownership and Corporate Control

The Russian privatization program transforms all industrial firms into joint stock company form. Why? Neoclassical theory does not help to explain why collective "capitalist" ownership should be a more efficient organization for modern, industrial enterprises. It also does not tell us much about the role of

\(^5\) For a more detailed discussion of the program implemented in Russia see Djelic (1992, 1993). Privatization proceeds at a rapid pace, with share prices in terms of vouchers extremely low. By the end of June almost 2500 firms with 3.6 million employees had been privatized. For data on the development of voucher prices cf. Boycko, Shleifer and Vishny (1993).

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distribution of equity. In principle, it is conceivable that labor
hires capital, and in principle, it should not matter which pattern
of ownership exists, as long as transaction costs are absent. In
particular, it is not clear how the distribution of property rights
should relate to corporate governance problems raised by the need
for massive restructuring in cases like Russia's. Yet, a closer
look at these questions seems to provide clues to understanding the
issue of insider versus outsider privatization after central
planning.

In an important article, Leijonhufvud (1985) describes the
"Dahlman paradox", an observation that "progress" in agriculture
seems to be characterized by a movement away from collective forms
of land ownership towards single units (the family farm), while the
reverse seems to be true for manufacturing since the industrial
revolution. Collective organization of production (the emergence
of the factory) leads to collective titles to capital goods (the
joint stock company). Leijonhufvud traces the key to this paradox
to an ancient but still somewhat unruly topic: increasing returns
in manufacturing.

In his view, joint ownership is the economic solution to the
problem of distributing the joint rent associated with complementarities in production. Following Adam Smith's dictum
that the division of labor is limited by the extent of the market,
increasing returns are realized by dividing production into
individual tasks. Re-arranging the organization of the production
process and use of machinery in such a way that increasingly
standardizes tasks, leads to a configuration which exploits all
possible efficiency gains.

Such gains in efficiency are associated with complementarities
in production. The withdrawal of a single workstation, in a simple
example, can reduce total output to zero. Marginal theories of
distribution, however, will not help to explain the allocation of
factor shares. The result is a bargaining process with an "empty
core" between the owners of different machines or workstations.
The solution which reduces any threat of "hold up", is the
institutionalization of joint ownership.

The analysis of increasing returns internal to the firm is easily extended to vertically integrated industries. Labor becomes standardized and replaceable, facing a thick market for its services, while the specialization of machinery largely determines firm size. "Capitalists unite" as long as the services of the machines they own leave them without alternative input sources and output customers. Thus, in a competitive setting, the need to coordinate activities will tend to subdivide specialization between productive facilities and a thick market becomes the prerequisite for establishing sizeable firms.6

In this way, the capitalist firm comes to lead "a life of its own", since ownership and productive activities may easily be divorced as the number of shareholders (and workstations) increases. That is, the institutionalization of shared ownership as a rational response to an economic problem leads to the principal-agent problem.

The implications for a centrally planned economy are easily drawn. The input-output structure representing the rational response to the planner's problem translates into a vertically integrated system, comprised of bilateral monopolies or monopsonies. No mechanisms limit firm size in potentially thick markets and nothing on the firm level prevents "oversized" plants. But the existence of large units does not imply that thick markets can easily be created by unbundeling large units.7 Nor does it imply that productivity gains can be realized by scaling back

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6 Cf. Alchian and Demsetz (1972) who describe the conditions in detail, if with a slightly different connotation. Labor, in the interpretation advanced here, is indeed "free" in the Marxian sense.

7 Cf. Aghion, Blanchard and Burges (1993) for a discussion of the problem of "unbundeling" diversified production units which are functionally organized within such conglomerates.
employment.

When central control and coordination is removed, such a system will experience the hold up problem, both in the aggregate and on the firm level. Time series data of output, employment, and inflation ought to be understood in terms of agents trying to rescue their firm by using its strategic position, while the repercussions of artificially thin markets for intermediate goods already cascade through the economy. As delivery channels continue to be interrupted, the scramble for subsidies intensifies, since in this case it represents the only option to avoid rates of unemployment corresponding to an unchecked decline in output.

It can be useful to consider the planned economy as one giant firm. This can be done in the way Olson (1993) has done, describing the Soviet state as an efficient tax collector, or by addressing the issue of ownership distribution and control. Such a picture would present a most lavish form of monopoly: no possibility for competition to entry; shares equally distributed, yet not tradable. Owners can not exercise control while the management (Nomenklatura Inc.) pursues its own goals. Thus, it

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8 Other plausible reasons for "oversizing" in the sense defined above, such as the inversion of Smith’s causality by the conviction that increasing returns would follow from high capital/labor ratios (resting on the mistaken Marxian belief that increases in the "organic composition of capital" and the rate of technical change are necessarily correlated) or the "requirements" of Stalin’s program of forced industrialization are not addressed here.

9 To estimate the consequences, the East German "factual" rate of unemployment might be a useful reminder. West German intervention made it possible to dismantle the old system of production faster than in any other CMEA country. The factual unemployment rate is defined as the rate of unemployment which would have resulted under the present privatization program without subsidies in the form of re-training programs, early retirements, the possibility to commute to the West, etc. -- without, that is, the privileged situation of having West Germany’s support. The factual Rate is estimated at roughly 45 percent.

10 In Olson’s picture "too much" government intervention causes the ultimate decline.

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seems socialism too can be described in terms of the principal-agent problem. But what type of takeover is most likely to turn this firm around?

The key to this puzzle lies in an answer to the question of how the control of joint stock companies relates to the distribution of shares in the economy as a whole. Emphasizing aggregate relationships, perhaps we should ask whether the distribution of wealth bears any relation to the ability to exercise the control required to induce restructuring. In a recent paper, Demsetz (1993) addresses precisely this issue, providing the missing link between explanations for shared ownership (and the unpleasant consequences of firms' divorce from their owners) and the role of asset distribution.

Demsetz argues that the level and distribution of wealth matter in this context, and not only the incentives provided by income. Wealth enters the production function through the need to exercise efficient control over firm management, given that shared ownership is already in place. A certain concentration of ownership is prerequisite to ameliorate the "control problem" in that case. For the economy as a whole, the result is a relation between the degree to which the distribution of wealth is skewed and the efficiency of control, and consequently between the level of wealth and the size of firms.

If equity were to be distributed equally across all agents, none of the scattered owners could exercise sufficient control to protect his own interests. At the other extreme, if all equity of all firms were owned by a single individual, this individual also would be unable to exercise efficient control, for it would be impossible for him to monitor all of his possessions with sufficient scrutiny, for sheer lack of time and cognitive abilities. The efficiency enhancing role of the distribution and the level of wealth is thus based "on the problem of maintaining beneficial control over resources in the presence of economies of size ... [it refers] to the wealth required to reduce the degree to which ownership is separated from the control over these resources"
(Demsetz 1988, p. 231). Furthermore, investing all of a given individual's wealth into a single firm would also not be utility maximizing, because it entails too much firm specific risk. Thus, the optimal structure of ownership is somewhere in between these extremes and the relation is shaped like a Laffer curve: The efficiency of control increases as the degree of concentration increases and then starts to decrease again. For this to be realized, the (initial) distribution of nominal wealth ought to be non-egalitarian, and the level of wealth must be sufficiently high to sustain firms the size of which may obey other criteria.

If the distribution of ownership is out of line, take-overs may recover productivity losses by realigning ownership distribution and thus re-establishing control. This, however, is a positive function of the efficiency of the markets in which shares are traded. If stock markets fail to perform as they should, their benevolent function might be reversed -- a phenomenon often associated with some variant of the insider-outsider problem.

Can mismatches between the level or distribution of wealth and the existing pattern of firm size be corrected by channelling wealth into a fund capable of solving the control problem? In principle, it should not, since mutual funds merely transfer the problem to a different level -- controlling the funds instead of the firms in which they invest. At the very heart of the control problem lies the fact that "firms are granted a life ... distinct from the life and desires of those who supply it with capital" (Demsetz 1993, p. 17). Shareholders have no opportunity to affecting the firm's investment decisions (and other contracts)

A number of studies (e.g. Demsetz and Lehn 1985, Shleifer and Vishny 1986) seem to support the claim that the "utility maximizing ownership structure for important shareholders in large firms .. is not a single-owner firm. It is a more diffuse ownership structure .. one in which enough shares are owned by very few shareholders to allow them to exercise more than a modicum of control" (Demsetz 1993, p. 8). Demsetz and Lehn (1985) claim that [name ratio of percentage of shares held by percentage of large owners]
once they have invested their capital. Nor can they reclaim their assets. Their only voice is the fall of share prices resulting from the sale of their shares. This mechanism, however, is indirect and will tend to be impotent if ownership is diffuse. The same is true of closed investment funds. Shareholders again must exercise their influence by monitoring the price of shares, while the fund holds the title to its portfolio.

However, there exists at least one notable exception: The mechanism by which discipline is exercised on open ended mutual funds does not depend on a concentrated position in their ownership. Here, control is exercised by the threat of withdrawing investment directly, which can be accomplished by owners of a small portion of the total, without need for coordination. As a result, open ended mutual funds can channel capital and assume controlling positions in other enterprises without compromising their own diversification. In situations where wealth is low and its distribution egalitarian they have the potential to ease the mismatch, should large firms be an important characteristic of the economy’s industrial structure. Note, that again efficiency of financial markets (and the enforceability of contracts) is crucial for the argument.

All other things neglected, the wealth of a nation must be relatively larger if it intends to sustain large firms than if it must sustain only small firms. Furthermore, an historically egalitarian distribution of income should then be associated with smaller firms, since the necessary concentration of ownership will be harder to achieve. Poor and egalitarian countries are better likely to find solutions to principal-agent problems, if their industrial structure is composed of smaller firms, while richer countries can accomplish the efficient maintenance of an industrial structure composed of large firms. Efficient secondary markets are a precondition for correction mechanisms; open ended mutual funds (plus enforceable contracts) can alleviate the control problem, up to a point.

As a nation progresses and civilization advances, as Adam
Smith would have put it, it will be guarded against the threat of efficiency losses arising from the very source of its wealth: shared ownership emerges from the division of labor. Instead of indulging dreams of free market miracles, however, one might consider the significance for privatizing Russian industry. Russia is characterized by a low and still largely egalitarian distribution of wealth, and by huge industrial conglomerates in the industrial sector. Its newborn financial markets do not function efficiently, transaction costs are generally high, contract enforcement not reliable, and secondary markets underdeveloped. Russia has no open ended mutual funds.¹²

The Design of Industrial Privatization

In theory, it should not matter whether preferential access to the acquisition of property rights is guaranteed to insiders -- provided transaction costs are minimal. What is absent, however, are efficient capital markets, and this failure may well be expressed as transaction costs. The trouble is that this line of argument does not lead very far, for the question is whether transaction costs will be equal under all scenarios. It seems therefore necessary to separate systematic causes from the transitory and accidental forces (the noise) accompanying the transition when establishing the conditions under which insider and outsider privatization may be expected to create one or another result with respect to the control problem.

Under the conditions outlined above, it seems fair to start with an example in which vouchers are distributed equally among the entire population (which, given the low level of wealth, has no

¹² Demsetz sums up the negative implications of the argument thus: "The severity of the control problem ... is partly a product of poverty and of wealth distribution, partly a product of time and expertise, and partly a product of the degree to which scale economies are present" (1993, p. 9).

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other means to acquire ownership of physical capital). The initial distribution of claims to the capital stock would be truly egalitarian. If trading (of claims and shares) would be exactly equally efficient in all cases, the example should lead to the establishment of the required distribution as well as any other conceivable alternative -- be it the distribution of vouchers to one individual or to insiders in a certain proportion to the estimated value of the firms in which they happen to work. The Coase theorem should hold.

In Demsetz' picture, the economy is far to the left of the optimal degree of ownership concentration. The possibility of actually transferring voucher claims into equity, and the speed with which this transfer and the required unequal distribution of wealth in terms of real assets will be established, depends on the willingness and opportunity for trading. If both are identical, then all cases will lead to the establishment of the best possible configuration of ownership in the long run, no matter how the initial giveaway of claims happens to be distributed. There are, however, reasons for the suspicion that this will not be the case under the conditions of an economy in transition.¹³

Before this result can be substantiated, however, a very obvious question needs to be addressed -- namely, whether the undervalued assets priced at voucher auctions indicate a systematic aptitude of the economic system to correct the control problem via the price mechanism (cf. the data in footnote 4). Can the vague term "firm size" be made more precise by referring to the actual market price of shares? As the term "undervaluation" implies, I do not believe this to be a feasible option. The market price of

¹³ Whether inside privatization in itself constitutes an advantage merely by distributing property rights in a less equal fashion is not considered here. It can not be answered, since it depends on the evaluation of the existing capital stock: If all firms were of equal size and book value, inside privatization of the whole economy would be tantamount to outside privatization; other constellations depend on the propensity to hold on to shares discussed in the text.
shares, expressed in vouchers, rubles, or Dollars, is subject to huge, accidental fluctuations. Only in so far as a systematic reason for the low level of wealth affecting the value of equity could in fact be established, would the Russian situation differ from the argument developed above. The control problem would be alleviated by the nature of moving an entire economy into private hands by changing the true value of its assets.\textsuperscript{14}

Russia, however, is not a closed economy. Nor are the differences between book values and asset evaluation sufficiently skewed to explain the observed differentials. The question may therefore be reduced to asking whether the conditions creating the deviation of the market from the natural price (so to speak) of productive assets is likely to prevail until the transfer is completed, and if so, whether it will lead to a distribution of ownership different from the one established under what appears to be the appropriate system of relative prices. This we do not know. It depends on whether the cause for the low evaluation of assets is at the same time operative in hampering the willingness to assume controlling positions in newly privatized firms. That this is likely is implied by the stylized description of the capital stock advanced here as well as by the recourse to stakeholders expropriating shareholders taken by Boycko, Shleifer and Vishny (1993) in an attempt to find a reasonable explanation for comparatively very low asset prices. In both cases the reason for low asset prices would also constitute a reason to shy away from exercising the necessary investment.

Which leaves us with the question whether any systematic reason can be identified that either the possibility or the willingness to trade are biased between the example of perfect outsider privatization and any other initial dispersion of wealth, including the one which gives insiders preferential access to

\textsuperscript{14} The process then becomes analogous to a takeover under competitive conditions where private ownership has already been established, and can be evaluated along the same lines.
"their" companies. Two obvious candidates for such a bias exist. It is first the question whether the general announcement that restructuring has to take place (i.e. that subsidies will be withdrawn) is credible; and second, whether the potential costs associated with such an announcement, i.e. the costs of loosing one's job, will alter behavior and thus constitute an impediment to the trading of shares.

Assume first the announcement is perfectly credible and alternative employment is readily available. In this case, insiders and outsiders should have the same incentives to trade and there should be no difference with respect to the control problem. This situation changes, as soon as one of the two conditions is violated.

If the announcement that everybody has to restructure is not credible, insiders in strategically well-located firms may have an incentive to hold onto their shares to continue the only game they consider worth playing: maximizing employment by maximizing subsidies. Similarly, if the announcement to restructure is credible but alternative employment opportunities are lacking. Opportunity costs to selling will increase as other forms of wealth are absent and the probability and the expected costs of unemployment increase. In the limit, shares will be held as an insurance against this risk -- especially if alternative securities are not available and under conditions of inflation.

It seems that one of the two conditions to balance the impact of insider and outsider privatization on the amelioration of the control problem will almost by definition be violated. For economies in transition (and within the limits defined in this paper, i.e. all other considerations aside) the result is obvious: Giving in to the pressure exercised on the design of the mass-privatization program by alliances resulting from the break-down of

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15 In the general context, this would denote the existence of a new private sector or the possibility to create one's own business. It might, in praxis, also be related to the quality of the social safety net established for the transition.

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the old structure of the command economy was less than the economically optimal response.

Conclusion

This paper has approached the question of insider versus outsider privatization from a somewhat unorthodox viewpoint. Though it is increasingly clear that the structure of the capital stock is different under central planning from what it is in a competitive environment, not too many attempts have been made to sort out what the actual difference is and where it comes from.

Tracing precisely this question leads to the often neglected existence of increasing returns in manufacturing, and to the instrumental role they play in the establishment of firms under joint ownership in competitive economies.\textsuperscript{16} From this point onwards, traditional theories of production and distribution are not of much help. One way of investigating the ensuing difficulties is to exploit the perspective of firms, separated from their owners in important respects, by tracing the connection between wealth and control. In the context of economies in transition, to "put wealth in the production function" may then render lessons which can be employed to a series of questions emerging from the grand economic experiment we are currently witnessing.

Furthermore, the results of this approach have been confirmed by the development of voucher prices after the Russian parliament had been dissolved (assuming that this lend increased credibility

\textsuperscript{16} Tracing the question to what an extent the misguided development of firm size and vertical integration under central planning was just a convenient way to alleviate the "planner's problem", and to what an extent it actually reflected a fundamental misunderstanding of Smith's causality on the part of Marx' pupils, should be one of these exercises where one can actually learn something new and useful by going back to the history of economic debates.
to the announcement that restructuring will be enforced); and of equity prices in countries with a substantial new private sector, such as Poland, where a separation between few unsalable state enterprises and a burgeoning stock market can be observed (in step with the decreasing risk associated with loosing employment).

The exercise, however, also leaves room for important policy conclusions. One would be attempts to use vouchers as collateral for hard currency loans. Another would be to investigate more closely the role of open ended mutual funds. Both, e.g. setting up investment funds under international control, or open ended mutual funds under the control of local entrepreneurs, could give new life to the tiresome discussions of how to spend the hard currency funds available for international financial assistance, but not yet disbursed. Extensions to other debates, for example the legal restrictions imposed on the banking system's ability to acquire productive capital, are easily conceivable.